

ABU DHABI ISLAMIC BANK

ACCOUNTING POLICIES AND PROCEDURES MANUAL

Section 8 – Islamic Financing Products

8.3 IJARA (LEASES)

8.3.1 There are two types of leases:

- *Ijara Muntahia Bittamleek*, and
- Operating *Ijara*

8.3.2 *Ijara Muntahia Bittamleek*

Ijara Muntahia Bittamleek is defined as a leasing transaction at the end of which title to the asset that is being leased passes to the lessee. There are several ways in which this may occur:

- (a) *Ijara Muntahia Bittamleek* through gift,
- (b) *Ijara Muntahia Bittamleek* through sale for a token consideration or other amount,
- (c) *Ijara Muntahia Bittamleek* through sale prior to the end of the lease term for a price equivalent to the remaining *Ijara* installments, and

The basic principles governing each type of *Ijara Muntahia Bittamleek* transaction are outlined below.

(a) *Ijara Muntahia Bittamleek* Through Gift

The Bank will receive regular lease payments for the duration of the term of the lease. At the end of the lease term, the title to the asset will be transferred to the lessee provided that all lease payments have been made. The Bank will not receive any consideration for the transfer of the title to the lessee.

(b) *Ijara Muntahia Bittamleek* Through Sale for a Token Consideration

Under this type of leasing transaction, title to the asset will pass to the lessee at the end of the lease term (provided that no lease payments remain outstanding) upon the payment of a predetermined amount or other consideration specified in the terms of the leasing agreement.

(c) *Ijara Muntahia Bittamleek* Through Sale Prior to the End of the Lease Term for an Amount Equivalent to the Remaining Lease Installments

ABU DHABI ISLAMIC BANK

ACCOUNTING POLICIES AND PROCEDURES MANUAL

Section 8 – Islamic Financing Products

The arrangement under this type of *Ijara Muntahia Bittamleek* is self-explanatory. This occurs when the lessee purchases the asset prior to the end of the lease term. The amount that is paid by the lessee for the purchase of the asset is equivalent to the sum of the remaining lease installments under the terms of the lease.

The accounting treatment of *Ijara Muntahia Bittamleek* through gift, sales for a token amount or sale before end of lease term is outlined below.

Purchase of the Asset

The following entry will be generated to record the purchase of the asset:

DR Investment in Ijara Muntahia Bittamleek Assets
CR Relevant Cash or Payable Account

The purchase price will include all costs incurred to make the asset ready for its intended use.

The amount receivable under an *Ijara Muntahia Bittamleek* contract will be recorded via the following memorandum accounts:

DR Receivables under Ijara Munt. Bitt. (contra asset)
CR Ijara Munt. Bitt. Contracts (contra liability)

The above entry will be partially reversed to reflect periodic payments by customer.

Corporate Product Manual – Ijarah

ABU DHABI ISLAMIC BANK

ACCOUNTING POLICIES AND PROCEDURES MANUAL

Section 8 – Islamic Financing Products

Lease Payments:

Lease payments will be accounted for as follows:

DR Relevant Cash or Receivable Account
CR Income - *Ijara Muntahia Bittamleek* (for the rental portion)

Depreciation Expense

Assets that are leased under *Ijara Muntahia Bittamleek* agreements are depreciated in a manner similar to other assets for the duration of the lease. The accounting entry that will be made to record depreciation expense will be:

DR Relevant Depreciation Expense Account
CR Relevant Accumulated Depreciation Account

If the asset is gifted at the end of the lease term, the following entry will be generated by the system:

DR Relevant Accumulated Depreciation Account
CR Investment in *Ijara Muntahia Bittamleek* Assets

If the asset is sold at the end of the lease term (including sale for a nominal amount), the following entry will be generated:

DR Relevant Cash or Receivable Account
DR Relevant Accumulated Depreciation Account
DR Loss on Sales of *Ijara* Assets (if applicable)

CR Investment in *Ijara Muntahia Bittamleek* Assets
CR Gain on Sales of *Ijara* Assets (if applicable)

ABU DHABI ISLAMIC BANK

ACCOUNTING POLICIES AND PROCEDURES MANUAL

Section 8 – Islamic Financing Products

Repairs of Leased Assets

The Bank and the lessee in proportion to their respective equity in the leased asset will share all repair expenses.

8.3.3 Operating *Ijara*

Operating *Ijara* agreements are similar to Operating lease agreements. Under the terms of an Operating *Ijara* lease, the lessee makes payments for the use of the asset for the duration of the lease term. Title to the asset remains with the Bank at the end of the lease term. The accounting treatment for Operating *Ijara* leases is outlined below.

Purchase of Operating Ijara Assets

DR Investments in Operating *Ijara* Assets

CR Relevant Cash or Payable Account

As is the case with assets purchased for *Ijara Muntahia Bittamleek* agreements, the cost of assets purchased for Operating *Ijara* purposes will include all expenses incurred to make the asset ready for its intended use.

The amount receivable under an Operating *Ijara* contract will be recorded via the following memorandum account:

DR Receivables under Operating *Ijara* Contracts (contra asset)

CR Operating *Ijara* Contracts (contra liability)

The above entry will be partially reversed to reflect periodic payments by customer.

ABU DHABI ISLAMIC BANK

ACCOUNTING POLICIES AND PROCEDURES MANUAL

Section 8 – Islamic Financing Products

Lease Payments:

Lease payments will be recognised as income when they become due. The accounting entry to accrue Operating *Ijara* income will be as follows:

DR Relevant Cash/Current Account or Receivable
Account

CR Income - Operating *Ijara*

Depreciation Expense

Assets that are leased under operating *Ijara* agreements will be depreciated in a manner similar to other assets. The depreciation expense will be recorded by way of the entry shown below:

DR Relevant Depreciation Expense Account

CR Relevant Accumulated Depreciation Account

Disposal of Operating Ijara Assets

The disposal of operating *Ijara* assets will be treated in the same way as the disposal of other fixed assets.

- 8.3.4 The accounting entries related to *Ijara Muntahia Bittamleek* and operating *Ijara* transactions will be automatically generated by the system. The Customer Services Officer, Consumer Finance, will verify and reconcile Mosaic's report for posted *Ijara* transactions against source documents for operating *Ijara* and *Ijara Muntahia Bittamleek*. The Manager, Consumer Finance will sign the report indicating review and approval. The Branch Accounting Officer will then review the report against source documents provided by the branch.

